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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -
AUGUST 27

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FORD TO INVEST 400 MILLION EUROS IN VALENCIA

11. (U) John Fleming, President and Chief Executive Officer
of Ford's European division signed an agreement with union
leaders at the group's Valencia plant on Wednesday in which
Ford has pledged to invest 400 million euros to maintain
production through 2013. In turn the unions have agreed to
"moderate" their demands during forthcoming collective
wage-bargaining negotiations.

MADRID GROWTH TO REMAIN UNAFFECTED BY GLOBAL CRISIS

12. (U) Secretary of State for the Economy, David Vega-
ra, announced at a news conference on Wednesday that the
government has no reason to change its forecasted GDP growth
of 3.8 percent this year and 3.3 percent in 2008 after the
National Statistics Institute confirmed that the economy
expanded by 4 percent in the second quarter. The Minister
further said "Although the data is provisional, nothing
suggests that the impact of the financial crisis will be
relevant to growth." A senior official in the Economic
Ministry also assured that the credit crunch in the U.S.
should have no notable impact on Spain's economic growth this
year or next.

UN FOOD AND AGRICULTURE ORGANIZATION IN FAVOR OF RENEWABLE FUELS

13. (U) The United Nations Food and Agriculture Organization
(FAO) has decided in favor of renewable fuels, especially if
they can be produced by developing countries and imported
free of import tariffs by developed countries, in particular,
the United States and Europe. FAO Director General Jaques
Diouf recently proclaimed that renewable fuels production
could "fast forward" poverty and hunger alleviation in
developing countries. He called on the United States,

Europe, and other key international players to develop an international renewable fuels strategy that would include the reduction, or elimination of tariffs on renewable fuels in the richest economies, and funding measures to initiate renewable energy production by small landowners in developing countries. In addition, Mr. Diouf suggested that the current focus of producing renewable fuels for the transportation sector is short sighted. He recommended that developed economies augment their focus to the use of renewable fuels in the production of electricity.

¶4. (U) The FAO's initiative is clearly designed to help poor developing-economy farmers take advantage of the current renewable fuels frenzy. The notion that developed economies would reduce or eliminate tariffs on renewable fuels, while not unattainable, is fraught with the same difficulties currently seen in the Doha Development Agenda negotiations on agricultural tariffs. However, the notion that developing-country farmers could somehow organize, or be organized to efficiently produce renewable fuels in quantities large enough to be economically viable for developing-country importers is complicated, with the exception of Brazil. Nonetheless, assisting developing-country Governments and potential producers understand the economic challenges of producing and using renewable fuels may help them to take appropriate policy decisions with respect to renewable fuels production and domestic use.

PRELIMINARY BUDGET NEGOTIATIONS DRAWING TO A CLOSE

¶5. (U) Informal agreement over the 2008 budget is close to being achieved between the incumbent socialist party (PSOE) and two minority parties. This agreement, if finalized, would garner the number of votes needed for a majority, ensuring easy passage of the bill when Congress reconvenes in September. The PSOE, which needs only 12 votes in order to

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obtain a majority, agreed to CiU and ERC demands to increase the amount of investment in infrastructure in the minority parties' corresponding region (Catalonia). With these additional votes, the PSOE's 2008 budget will not be blocked by the opposition party (Partido Popular) during this election year. The current draft budget proposes an increase of 6.7 percent in public spending over 2007 (an increase of approximately 10 billion euros) and an increase of 15 percent of research and development funding.

HOUSING MINISTER ATTEMPTS TO PROMOTE RENTING TO YOUNGER WORKERS

¶6. (U) Recently appointed Minister of Housing Carme Chacon expects to present a package in October to provide financial incentives for those under 35 who decide to rent instead of buy. The Minister indicated this past week that she will continue to reach out to stakeholders, such as unions, businesses, and young workers, to incorporate other measures in the plan that may make renting more palatable to young workers (and therefore make housing more accessible overall). Despite these efforts, a recent survey of 1,000 young workers conducted by the Ministry of Housing showed that these workers would prefer to buy rather than rent. Currently, Spain's percentage of household renting is very low at 11 percent compared with an EU average of 38 percent.

ECONOMIST STUDY RANKS SPAIN 24th IN TECHNOLOGY COMPETITIVENESS

¶7. (U) According to a study sponsored by the Economist, Spain occupies the 24th position worldwide for technological competitiveness, lagging behind Italy but ahead of Poland and Estonia. In this report, Spain fell well behind the EU average in rankings.

IBERDROLA GRANTED APPROVAL TO SELL 5.5 BILLION DOLLARS WORTH OF SHARES ON U.S. SECURITIES MARKET

18. (U) Iberdrola, the world's largest wind generation company, won approval yesterday from the U.S. Federal Energy Regulatory Commission for a 5.5 billion dollar plan to sell shares of its Renewable Energy unit on the U.S. securities market. Shares of Iberdrola increased nearly 2 percent on the news, with high expectations for the upcoming listing. (Bloomberg, 8/31/07)

SPAIN'S AVERAGE HOUSEHOLD DEBT EXCEEDS ANNUAL HOUSEHOLD INCOME BY 15 PERCENT

19. (U) Since 2000, household debt has grown 16 percent per year, increasing from 70.7 percent of annual household income in 2000 to 115 percent in 2006. Contrasted with this increase in debt, the value of household assets grew only 4 percent annually in the same period. As a result, the net worth of Spanish families has declined and now averages just 27.8 percent more than annual household income, down from 46 percent in 2000. As a general rule, Spanish households continue to prefer lower risk investments with more than 38 percent of net financial assets held in cash and cash equivalents as of 2006. In the first quarter of 2007, household cash deposits increased 13.5 percent over the same period in 2006. (Comment: Reflecting an even greater aversion to higher risk, higher return investments, this increased shift to cash deposits will negatively impact consumer spending and economic growth. End Comment). (Cinco Dias, 8/31/07)
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